REPORT ON EXAMINATION

of the

PROFESSIONAL LIABILITY INSURANCE COMPANY

Nashville, Tennessee

as of

December 31, 2002

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
April 26, 2004

The Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition (E) Committee
Secretary, Southeastern Zone, NAIC
Virginia Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218-1157

The Honorable Paula A. Flowers
Commissioner of Commerce & Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37219

The Honorable Sally McCarty
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Indiana Department of Insurance
311 W. Washington St., Suite 300
Indianapolis, Indiana 46204-2787

The Honorable John Morrison
Secretary, Western Zone, NAIC
Commissioner of Insurance
Montana Department of Insurance
840 Helena Ave.
Helena, Montana 59601

Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and a market conduct review was made of the conditions and affairs of the

PROFESSIONAL LIABILITY INSURANCE COMPANY
NASHVILLE, TENNESSEE

hereinafter and generally referred to as the "Company."

INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee under rules promulgated by the NAIC. It was commenced on June 16, 2003, and was conducted by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee. Due to the Company being licensed in several states, this examination is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System. However, notice of intent to participate was not received from any other state. This examination was made simultaneously with the Company's parent, Hospital Underwriting Group, Inc. (HUG).

The previous examination was made as of December 31, 1997, by examiners of the State of Tennessee. Their report on examination only contained a few criticisms requiring corrective action by the Tennessee Department of Commerce and Insurance. The Company has failed to correct one of the problems stated in the last report. See Comments - Previous Examination section included under Scope of Examination on page 2. All of the Company's original books and records are located at their home office in Nashville, Tennessee.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 1998 through December 31, 2002, and includes any material transactions and /or events occurring subsequent to the examination date which were noted during the course of examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2002, in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile. The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook.

A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this report.

<u>Comments - Previous Examination</u>

The last financial condition examination as of December 31, 1997 only had a few comments. The Company failed to correct the one (1) prior recommendation that still remains a problem:

The examiners recommended the Company should comply with the Department's interpretation of Tenn. Code Ann. § 56-1-405 by non-admitting the value of special deposits for jurisdictions in which the company wrote no premium and by non-admitting the difference between premiums written and the value of special deposits in jurisdictions where premiums written or reserves do not equal or exceed the value of those deposits. In the Company's 2002 Annual Statement, they reported a special deposit in South Carolina of $162,250, however, direct losses unpaid in South Carolina were only $150,000. To comply with the Department's prior recommendation, the Company should have non-admitted the excess of the special deposit that exceeded unpaid loss reserves, or $12,250.

An examination of all assets and liabilities contained in the financial statement of this report was made and individual items were verified with a degree of emphasis determined by the examiner-in-charge during the planning stage of the examination. Independent actuaries were utilized in the review of the Company's loss reserves and loss adjustment expense reserves.

The Company is audited annually as part of the audit conducted for the holding company system, of which it is a member, by an independent accounting firm. The auditors' workpapers for the year ended 2002 were made available to the examiners during the planning phase of this examination. Workpapers of the auditors' substantive testing and their documentation of the Company's procedures and verification of internal controls were relied upon where sufficient for the purposes of this examination. Copies of these workpapers are included in the examination files where appropriate.

An examination was also made into the following matters:

- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Holding Company System
- Pecuniary Interest of Officers and Directors
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Market Conduct Activities
- Exhibit of Premiums Written – Schedule T
- Loss Experience
- Reinsurance
- Commission Equity – Not Applicable for period of examination
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposit
- Accounts and Records
- Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was incorporated as a pure captive insurance company on December 31, 1978, according to the provisions of the Tennessee General Corporation Act and the Tennessee Captive Insurance Company Act with 4, 000 authorized shares of capital stock at a par value of $400 per share. Effective December 15, 1978, 1,000 of such shares were issued to Hospital Corporation of America ("HCA") upon consideration of $750,000 which was paid in as $400,000 capital and $350,000 gross paid in contributed surplus. Such capital amount was funded in the form of an irrevocable letter of credit pursuant to the provisions of Tenn. Code Ann. § 56-13-116(c).

Effective January 1, 1979, the Company was issued a Certificate of Authority by the Department of Commerce and Insurance, State of Tennessee, to write Professional Liability Insurance or Errors and Omissions Insurance combined with Comprehensive General Liability Insurance.

On March 28, 1985, with the approval of the Commissioner of the Department of Commerce and Insurance for the State of Tennessee, Parthenon Insurance Company restated its Charter. The effect of the Charter reinstatement served to change the name of the Corporation to Parthenon Casualty Insurance Company, to increase the par value of its capital stock from $400 per share to $500 per share, and to convert the Company from a "captive insurance company" to a regular stock property and casualty insurance company.

By order dated April 12, 1988, the Commissioner of the Department of Commerce and Insurance for the State of Tennessee approved the sale of the Company from Hospital Corporation of America to Hospital Underwriting Group, Inc. and/or First Riverside Syndicate, Inc. On April 15, 1988, Parthenon Casualty Insurance Company was acquired by First Riverside Syndicate, Inc. The effective date of the acquisition was January 1, 1988.

By Charter amendment, duly approved by the Commissioner of the Department of Commerce and Insurance for the State of Tennessee, Parthenon Casualty Insurance Company changed its name to Professional Liability Insurance Company, with an effective date of September 1, 1988.

Effective January 17, 1990, the Company's Charter was amended to read as follows: "The maximum number of shares which the corporation shall have the authority to issue is Four Thousand (4,000) shares of Common Stock, par value of $850.00 per share." This transaction was approved by the Tennessee Department of Commerce and Insurance on January 17, 1990.

Effective March 20, 1991, First Riverside Syndicate, Inc. was dissolved and all assets and liabilities, including the capital stock of Professional Liability Insurance Company, were transferred to Hospital Underwriting Group, Inc (HUG). Therefore, 100% of the capital stock of Professional Liability Insurance Company is now owned by HUG.

On May 4, 1995, the Department approved the issuance of a $2,000,000 Subordinated Promissory Note by the Company to HUG. Repayment of the note is subordinate and subject to the rights of policyholders and creditors, including lien holders of the Company. The surplus note requires the Commissioner's prior approval on any principal or interest payments. The Company has been making annual interest payments to HUG and has not requested or received the Commissioner's prior approval. It is recommended that the Company comply with the language found in the surplus note and receive the Commissioner's prior approval before making any principal or interest payments.

The Company's capital structure appears in the 2002 Annual Statement as follows:

Common capital stock	$1,040,060
Surplus notes	2,000,000
Gross paid in and contributed surplus	4,776,675
Unassigned funds (surplus)	(3,724,618)
Surplus as regards policyholders	$4,092,117

Prior to July 1, 1998, the Company issued medical malpractice insurance policies to physicians who practiced at facilities owned by the policyholders / stockholders of Hospital Underwriting Group, Inc. (HUG), the parent company. Polices were generally written with liability limits up to $1,000,000 per claim or occurrence and up to $3,000,000 annual aggregate. Effective July 1, 1998, the Company discontinued underwriting any new policies and offered its policyholders the option to purchase tail-coverage. The Company will continue to maintain investments and loss reserves associated with existing long-tail insurance policies.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the Department of Commerce and Insurance, State of Tennessee:

Year	Premiums Earned	Losses Incurred	Assets	Liabilities	Capital & Surplus
1998	$2,893,335	$2,358,829	$17,567,327	$13,639,890	$3,927,437
1999	195,401	(386,556)	13,814,555	9,817,131	3,997,424
2000	0	726,257	8,452,558	5,234,835	3,217,723
2001	0	(818,951)	7,393,071	3,249,093	4,143,978
2002	0	(511,152)	6,111,957	2,019,840	4,092,117

CHARTER AND BYLAWS

The original Charter of the Company was approved by the Tennessee Insurance Commissioner and effected December 13, 1978. An amended and restated charter was approved by the Commissioner on March 28, 1985, as stated in the Company History section. Since that time, the Company has had three charter amendments. These were in 1988, 1989 and 1990. These were for a name change, address change, and increased the common stock par value to $850, respectively.

The Charter provides for the operation of a Tennessee Property and Casualty Insurance Company that is for profit, and establishes its location in Nashville, Tennessee. The Charter in effect at the examination date states that, "The objects and purposes for which the Corporation is organized, and the nature of its powers and of the business to be carried on by it, are as follows:

a) To make property, vehicle, casualty and surety insurance coverages as defined under Tenn. Code Ann. § 56-2-201.
b) To assume and cede all classes of reinsurance risks, including but not limited to, property, vehicle, casualty, surety and disability coverages.
c) To provide any and all kinds of insurance services."

In addition to the above, the Company's Charter recites other general and specific powers in detail. They are usual in nature and consistent with statute.

The bylaws of the Company were last amended on May 9, 1994. The amendment deleted all references to the Tennessee Captive Insurance Act of 1978 and the Tennessee Captive Insurance Act. The bylaws may be amended, repealed, or adopted by a majority of the Board of Directors or by the owners of a majority of the issued and outstanding capital stock entitled to vote.

A meeting of the shareholders to elect directors shall be established annually by resolution of the Board of Directors. Special meetings of the shareholders may be called by the President or at least one-tenth (1/10) of the issued and outstanding shares entitled to vote at such meeting.

A Board of Directors of not less than four (4) members nor more than ten (10) members shall be elected at the annual meeting of the shareholders. A regular meeting of the Board of Directors shall occur immediately following the annual shareholders meeting. Special meetings may be called at the request of the President or any two (2) directors upon at least three (3) days written notice. The Board of Directors may appoint an Executive Committee which shall have and exercise certain authority delegated to it by the Board of Directors in the management of the Company.

The current Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors and its shareholders.

MANAGEMENT AND CONTROL

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected by the affirmative vote of the outstanding shares entitled to vote in the election at the annual meeting of the shareholders. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the sole shareholder on June 7, 2002 and were serving as members of the Board at December 31, 2002:

Name
Sanford M. Bragman – Chairman of the Board
Tim Pullen
Robert Schwebel
Horace E. Gaddis, Jr.

The officers of the Company shall be chosen by the Board of Directors and include President, one (1) or more Vice Presidents, Secretary, Treasurer, and any other officers designated by the Board.

At the Board of Directors Meeting on June 7, 2002, the following officers were duly elected and were serving at December 31, 2002:

Name	**Title**
Sanford M Bragman	Chairman of the Board and President
Horrace E. Gaddis, Jr.	Vice President – Operations and Secretary
James C. Oakley	Vice President and Treasurer
Mary Ellen Near	Assistant Secretary
Christy L. Collier	Assistant Secretary

HOLDING COMPANY SYSTEM

The Company, HUG and its parent, HUG Services, Inc., are members of an insurance holding company system, as defined by TCA § 56-11-201, of which Tenet Healthcare Corporation is the ultimate parent. There are no persons that own in excess of 10% of the voting shares of Tenet Healthcare Corporation.

The Company is wholly-owned by HUG, a Tennessee domiciled captive. HUG is wholly-owned by HUG Services, Inc., a Delaware corporation. HUG Services operates as an insurance holding company exclusively. As of December 31, 2002, Tenet Healthcare Corporation owned 92.5% of HUG Services, Inc. Community Health Systems owned the remaining 7.5% of the shares. Tenet Healthcare Corporation is a hospital organization located in California.

In 2003, Tenet Healthcare Corporation purchased the remaining shares of HUG Services from Community Health Systems and now owns 100%. An organizational chart is attached to this report on page 26.

PECUNIARY INTEREST OF OFFICERS AND DIRECTORS

The Company has established a conflict of interest policy for its officers and directors. Directors, officers and certain employees are required to complete a Policy on Business Conduct Annual Questionnaire. This questionnaire is used for all entities within the holding company system and persons required to complete the certificate sign only one form regardless of the number of positions they hold with different companies throughout the system. The examiner reviewed the questionnaires completed by the Company's directors and major officers for the period under review with no exceptions.

CORPORATE RECORDS

The minutes of meetings of the Company's shareholders and Board of Directors meetings were reviewed for the period under examination. They were found to be well written and appear to properly reflect the acts of these respective bodies.

The Company, HUG Services, Inc. and HUG's stockholders and Board of Directors all hold their meetings together and the minutes for each separate entity are commingled. Written consents and resolutions are done separately. Attendance by board members was 98% at these meetings.

However, one problem was noted during the review of the Company's corporate records. The Board of Directors did not approve the Company's actuary in any year during the exam period.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under certain insurance coverages being carried by its parent, Hospital Underwriting Group, Inc. The following is a summary of the various bonds and insurance policies that provided the enumerated coverages to the Company at December 31, 2002:

Type of Coverage	Limits of Liability
1. Commercial general liability	$ 1,000,000 per occurrence
	$ 100,000 fire limit-any one fire
	$ 5,000 medical expense
	$ 1,000,000 personal & advertising
	$ 2,000,000 general aggregate
	$ 2,000,000 products-completed operations

2. Workers compensation liability	
A. Workers compensation	Tennessee statutory limit
B. Employers liability	
a. Bodily injury by accident	$ 100,000 each accident
b. Bodily injury by disease	$ 100,000 each employee
c. Bodily injury by disease	$ 500,000 policy limit

The Company does not maintain a fidelity bond. Minimum fidelity coverage suggested in the National Association of Insurance Commissioners' Examiners Handbook for a company of the Company's size and premium volume is not less than $100,000. It is recommended that the Company obtain a fidelity bond of an amount in accordance with the NAIC suggested minimum.

The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

EMPLOYEE BENEFITS AND PENSION PLANS

As of December 31, 2002, the employees of the Company were eligible to participate in various benefit plans offered by HUG. The plans provided for term life, accidental death and dismemberment, long term disability, cancer insurance, comprehensive medical and dental coverages.

The Company participates in a 401(k) deferred compensation plan implemented by HUG covering substantially all employees. The Company matches 100% of each employee's contribution up to 5% of annual salary. Employees participating at the plan's inception are fully vested in all contributions. Employees added to the plan subsequent to its inception vest 20% annually in the employer's matching contribution.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2002, and as of the date of this examination report, the Company was licensed to transact business in the States of Tennessee, California, Missouri, Nebraska, North Carolina, Oregon and Texas. In addition, the Company has surplus lines authority in the States of Alabama, Arkansas, Florida, Georgia, Indiana, Kansas, Mississippi and South Carolina.

Certificates of Authority for the jurisdictions were reviewed.

Plan of Operation

Prior to July 1, 1998, the Company issued medical malpractice insurance policies to physicians who practiced at facilities owned by the policyholders / stockholders of Hospital Underwriting Group, Inc. (HUG), the parent company. Polices were generally written with liability limits up to $1,000,000 per claim or occurrence and up to $3,000,000 annual aggregate. Effective July 1, 1998, the Company discontinued underwriting any new policies and offered its policyholders the option to purchase tail-coverage. The Company will continue to maintain investments and loss reserves associated with existing long-tail insurance policies.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the Department of Commerce and Insurance, State of Tennessee, a market conduct review was made of the Company as of December 31, 2002 in conjunction with this examination. The following items were addressed:

Policy Forms, Rating and Underwriting:

Effective July 1, 1998, the Company discontinued underwriting any new policies and has been in run-off since that time. Policy forms and rates were reviewed during this examination up to the Company's premium writing cut-off date, and all were found to have been submitted and approved by the Department of Commerce and Insurance.

Advertising:

The Company does not do any advertising.

Policyholder Complaints:

Inquiries made to the various policyholders service offices and the NAIC market conduct database indicated no concerns or complaints with the Company during the period under examination.

Claims Review:

The examination included a review of the Company's claims handling to determine compliance with Tenn. Code Ann. § 56-8, Part 1. A review of open claims at December 31, 2002 and subsequent revealed that the Company appears to be setting reserves on a consistent basis. Closed claims during the period of examination were reviewed and indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

EXHIBIT OF PREMIUMS WRITTEN – SCH. T

States	Direct Premiums Written	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Arkansas	$0	$0	$0	$110,000
California	0	0	(98,037)	34,981
Florida	0	500,000	1,639	499,953
Georgia	0	0	(83,876)	38,484
Louisiana	0	232,000	(237,622)	481,250
Missouri	0	50,000	(686)	82,197
North Carolina	0	0	95,000	110,000
South Carolina	0	0	135,000	150,000
Tennessee	0	0	(4,248)	2,949
Texas	0	0	(80,821)	37,080
Totals	$0	$782,000	($273,651)	$1,546,894

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the Department of Commerce and Insurance for the State of Tennessee, the ratios of losses and loss adjustment expenses (LAE) incurred to earned premiums for the period subject to this examination were as follows:

Year	Losses & LAE Incurred	Earned Premiums	Loss Ratio
1998	$4,327,399	$2,893,335	149.6%
1999	1,250,581	195,401	640.0%
2000	1,805,931	0	N / A
2001	(449,981)	0	N / A
2002	72,499	0	N / A
Total All Years	$7,006,429	$3,088,736	226.8%

REINSURANCE AGREEMENTS

On July 1, 1997, the Company entered into a Casualty Excess of Loss Reinsurance Agreement with Employers Reinsurance Corporation, covering all business classified by the Company as medical professional liability of physicians, surgeons and osteopaths, and related medical professionals (and including entity coverages). This agreement applies to all losses occurring and/or claims made on policies written or renewed with effective dates during the 24-month period incepting July 1, 1997. One hundred percent (100%) of $750,000 excess of $250,000 per claim, per insured plus pro-rata loss adjustment expense is covered under the contract.

The contract did not require prior approval per Tenn. Code Ann. Employers Reinsurance Corporation is an authorized reinsurer in the State of Tennessee. Also, the contract contains a standard insolvency clause.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had two (2) agreements with affiliated companies in effect as of December 31, 2002. The following are summaries of the agreements in effect as of this examination for the Company:

Management Service Agreement:

Effective December 1, 1988, the Company entered into a Management Service Agreement with its parent, Hospital Underwriting Group, Inc. (HUG). According to the terms and provisions of the Contract, HUG agrees to provide the Company with certain administrative services for its internal operations and processing its insurance business. Such services include general administration, claims handling, computer services, premium billing, policyholder services, investments and relations with regulatory authorities.

The Company has no employees of its own. All services necessary to its business are provided by HUG pursuant to the Contract. The Company pays HUG a fee based on a stated formula each month for these services. Transactions under the Management Service Agreement were reviewed for compliance with the Contract and charges appear to be commensurate with services rendered.

This agreement has never been filed for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). It is recommended that the Company comply with Tenn. Code Ann. § 56-11-206 (2)(A) and file this management service agreement with the Tennessee Department of Commerce and Insurance for their approval.

Tax Sharing Agreement:

This agreement between HUG Services, Inc. and the Company was adopted effective as of December 2, 1988. The agreement states the two parties elect to allocate their tax liability during consolidated return years by the method defined in section 1504 of the Internal Revenue Code. The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to intercompany payable and receivables will be made if such exist on the Company's books. Transactions under the Tax Sharing Agreement were reviewed for compliance with the Contract with no exceptions.

This agreement has been disclosed by the Company in its Holding Company Registration Statement in each year for the period under review and was reviewed and reported on in the last two examination reports.

LITIGATION AND CONTINGENT LIABILITIES

From the data made available during the progress of this examination, it would appear that the only matters at law in which the Company was involved, during the period under review, were those relating to the settlement of claims.

The Company also apparently had no agreements or pending matters of contingent nature that would materially affect its financial position or operating results at December 31, 2002.

STATUTORY DEPOSIT

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions or custodians as of December 31, 2002:

Jurisdiction	Description of Security	Par Value	Book Value	Market Value
Arkansas - Dept. of Insurance	US Treasury Note 5.875%, Due 11-15-05 Cusip # 912827-T7-7	$105,000	$104,490	$106,450
Louisiana - Dept. of Insurance	US Treasury Note 3.25%, Due 08-15-07 Cusip # 912828-AH-3	50,000	50,302	51,000
North Carolina - Dept. of Insurance	Certificate of Deposit 5.00%, Due 04-15-03	100,425	100,425	100,425
South Carolina - Dept. of Insurance	Campbell Soup 6.90%, Due 10-15-06 Cusip # 134429-AJ-8	160,000	162,250	165,125
Tennessee - Dept. of Insurance	Chemical Bank 6.625%, Due 08-15-05 Cusip # 163714-AE-8	750,000	758,872	820,042
Total		$1,165,425	$1,176,339	$1,243,042

States where special deposits are not for the benefit of all policyholders, claimants, and creditors of the Company are Arkansas, Louisiana, North Carolina and South Carolina. Securities deposited with the State of Tennessee are held for the benefit of all policyholders, claimants, and creditors of the Company. Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodian of such deposit.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and sample tested for correctness. These test checks and reviews revealed no material discrepancies.

However, during the examination the following accounts and records deficiency was noted. The Company has been incorrectly reporting its number of shares outstanding shown in the General Interrogatories section in its Annual Statement filings for the period under review. The Company has been reporting its number of shares outstanding as 3,059, when in actuality it has been and still is 1,223. This should be corrected in all future filings.

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2002, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

Assets

	Ledger Assets	Non-Ledger Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	$4,697,620		$12,250	$4,685,370
Cash on hand and on deposit	(336,960)			(336,960)
Short-term investments	1,536,808			1,536,808
Federal income tax recoverable and interest thereon	316,798			316,798
Interest, dividends and real estate income due and accrued	64,126			64,126
Totals	$6,278,392	$0	$12,250	$6,266,142

Liabilities, Surplus and Other Funds

Losses		$1,496,897
Loss adjustment expenses		633,994
Other expenses		2,950
Federal and foreign income taxes		0
Aggregate write-ins for liabilities		52,434
Total Liabilities		$2,186,275
Common capital stock	$1,040,060	
Surplus notes	2,000,000	
Gross paid in and contributed surplus	4,776,675	
Unassigned funds (surplus)	(3,736,868)	
Total Surplus as Regards Policyholders		4,079,867
Totals		$6,266,142

Statement of Income

UNDERWRITING INCOME:		
Premiums earned		$0
Losses incurred	($511,152)	
Loss expenses incurred	583,651	
Other underwriting expenses incurred	339,822	
Total underwriting deductions		412,321
Net Underwriting Gain or (Loss)		($412,321)
INVESTMENT INCOME:		
Net investment income earned	$238,439	
Net realized capital gains or (losses)	105,608	
Net Investment Gain or (Loss)		344,047
Net income before dividends to policyholders and before federal and foreign income taxes		($68,274)
Dividends to policyholders		0
Net income, after dividends to policyholders but before federal and foreign income taxes		($68,274)
Federal and foreign income taxes incurred		(16,413)
Net Income		($51,861)

Capital and Surplus Account

	1998	1999	2000	2001	2002
Total Surplus as Regards Policyholders December 31, previous year	$4,275,060	$3,927,437	$3,997,424	$3,217,723	$4,143,978
Net income or (loss)	($349,144)	$67,393	($779,701)	$520,199	($51,861)
Net unrealized capital gains or (losses)	0	0	0	0	0
Change in non-admitted assets	8,457	2,594	0	0	(12,250)
Change in net deferred income tax	0	0	0	406,056	0
Surplus adjustments:					
Paid-in	(6,936)	0	0	0	0
Change in total surplus as regards policyholders for the year	($347,623)	$69,987	($779,701)	$926,255	($64,111)
Total Surplus as Regards Policyholders December 31, current year	$3,927,437	$3,997,424	$3,217,723	$4,143,978	$4,079,867

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

ASSETS

Bonds: $4,685,370

The amount shown above is $12,250 less than what was reported by the Company in its 2002 Annual Statement (A/S). **REASON:** In the prior exam, it was recommended that the Company comply with Tenn. Code Ann. § 56-1-405 by non-admitting the excess of special deposits that exceed loss reserves in a particular state. In the Company's 2002 A/S, they had one deposit with South Carolina that was $12,250 more than their loss reserves in that state. This excess amount should have been non-admitted by the Company, therefore, we will non-admit it for our exam.

Federal Income Tax Recoverable: $316,798

The amount shown above is $166,435 more than what was reported by the Company in its 2002 Annual Statement. **REASON:** In the Company's 2002 Annual Statement, they reported their deferred tax asset as Federal Income Taxes Recoverable of $150,363, and reported their Federal Income Tax Payable as ($166,435). For our examination, the negative liability will be reclassified and added to the Federal Income Tax Recoverable balance of 150,363, leaving a total Federal Income Tax Recoverable balance of $316,798. The Tennessee Department of Commerce and Insurance accounting practices and procedures do not allow for a negative liability amount. It is recommended that the Company not report any liability amounts to be negative in future statutory financial statements.

LIABILITIES, SURPLUS AND OTHER FUNDS

Federal Income Tax Payable: $0

The amount shown above is $166,435 more than what was reported by the Company in its 2002 Annual Statement. **REASON:** In the Company's 2002 Annual Statement, they reported their deferred tax asset as Federal Income Taxes Recoverable of $150,363, and reported their Federal Income Tax Payable as ($166,435). For our examination, this negative liability will be reclassified and added to the Federal Income Tax Recoverable balance of 150,363, leaving a total Federal Income Tax Recoverable balance of $316,798. The Tennessee Department of Commerce and Insurance accounting practices and procedures do not allow for a negative liability amount. It is recommended that the Company not report any liability amounts to be negative in future statutory financial statements.

Total Surplus as Regards Policyholders: $4,079,867

Total Surplus as Regards Policyholders as established by this examination is $12,250 less than what was reported by the Company in its December 31, 2002 Annual Statement. For this examination, we decreased bonds by $12,250. This amount is outlined in the subsequent schedule which indicates changes in the financial statement as they affect surplus. The change in the item is discussed in detail under the appropriate caption elsewhere in this report.

The Company as of December 31, 2002, for this examination does maintain the required minimum capital and surplus as stated in the Tenn. Code Ann. § 56-2-(114-115).

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AS THEY AFFECT SURPLUS

Item	Reclassification	Increase	Decrease	Surplus
Total Surplus as Regards Policyholders per Company				$4,092,117
Bonds			$12,250	
Federal Income Taxes Recoverable	$166,435			
Federal Income Taxes Payable	(166,435)			
Totals	$0	$0	$12,250	
Total Decrease per Examination				(12,250)
Total Surplus as Regards Policyholders per Examination				$4,079,867

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

1. Corporate Records - Page 8

The minutes of meetings of the Company's shareholders and Board of Directors meetings were reviewed for the period under examination. They were found to be well written and appear to properly reflect the acts of these respective bodies.

The Company, HUG Services, Inc. and PLICO's stockholders and Board of Directors all hold their meetings together and the minutes for each separate entity are commingled. Written consents and resolutions are done separately.

However, one problem was noted during the review of the Company's corporate records. The Board of Directors did not approve the Company's actuary in any year during the exam period.

2. Fidelity Bond and Other Insurance – Page 8

The Company does not maintain a fidelity bond. Minimum fidelity coverage suggested in the National Association of Insurance Commissioners' Examiners Handbook for a company of the Company's size and premium volume is not less than $100,000. It is recommended that the Company obtain a fidelity bond of an amount in accordance with the NAIC suggested minimum.

3. Accounts and Records – Page 14

During the examination the following accounts and records deficiency was noted. The Company has been incorrectly reporting its number of shares outstanding shown in the General Interrogatories section in its Annual Statement filings for the period under review. The Company has been reporting its number of shares outstanding as 3,059, when in actuality it has been and still is 1,223. This should be corrected in all future filings.

4. Federal Income Tax Recoverable – Page 19

In the Company's 2002 Annual Statement, they reported their deferred tax asset as Federal Income Taxes (FIT) Recoverable of $150,363, and reported their FIT Payable as ($166,435). For our examination, the negative liability will be reclassified and added to the FIT Recoverable balance of 150,363, leaving a total FIT Recoverable balance of $316,798. The Tennessee Department of Commerce and Insurance accounting practices and procedures do not allow for a negative liability amount. It is recommended that the Company not report any liability amounts to be negative in future statutory financial statements.

Recommendations:

1. Comments – Previous Examination & Bonds – Page 2 and Page 19

The last financial condition examination as of 12/31/97 did disclose a few regulatory concerns. The Company failed to correct the one (1) prior recommendation that still remains a problem:

The examiners recommended the Company should comply with the Department's interpretation of Tenn. Code Ann. § 56-1-405 by non-admitting the value of special deposits for jurisdictions in which the company wrote no premium and by non-admitting the difference between premiums written and the value of special deposits in jurisdictions where premiums written or reserves do not equal or exceed the value of those deposits. In the Company's 2002 Annual Statement, they reported a special deposit in South Carolina of $162,250, however, direct losses unpaid in South Carolina were only $150,000. To comply with the Department's prior recommendation, the Company should have non-admitted the excess of the special deposit that exceeded unpaid loss reserves, or $12,250. This excess amount will be non-admitted for this examination.

2. Company History – Page 3

On May 4, 1995, the Department approved the issuance of a $2,000,000 Subordinated Promissory Note by the Company to HUG. Repayment of the note is subordinate and subject to the rights of policyholders and creditors, including lien holders of the Company. The surplus note requires the Commissioner's prior approval on any principal or interest payments. The Company has been making annual interest payments to HUG and has not requested or received the Commissioner's prior approval. It is recommended that the Company comply with the language found in the surplus note and receive the Commissioner's prior approval before making any principal or interest payments.

3. Agreements with Parent, Subsidiaries and Affiliates – Page 12

Effective December 1, 1988, the Company entered into a Management Service Agreement with its parent, HUG. This agreement has never been filed for approval by the Commissioner of Insurance as required by Tenn. Code Ann. § 56-11-206 (2)(A). It is recommended that the Company comply with Tenn. Code Ann. § 56-11-206 (2)(A) and file this management service agreement with the Tennessee Department of Commerce and Insurance for their approval.

CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Professional Liability Insurance Company of Nashville, Tennessee.

In such manner, it was found that as of December 31, 2002, the Company had admitted assets of $6,266,142 and liabilities, exclusive of surplus, of $2,186,275. Thus, there existed for the additional protection of the policyholders, the amount of $4,079,867 in the form of common capital stock, surplus notes, gross paid in and contributed surplus and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Brett E. Miller, FCAS, MAAA, FCA, contract actuary for the State of Tennessee, participated in the work of this examination.

Respectfully submitted,

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Stephanie D. Higgins
Insurance Examiner, CFE
State of Tennessee
Southeastern Zone, NAIC

Scott Creel
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Professional Liability Insurance Company of Nashville, Tennessee dated April 26, 2004, and made as of December 31, 2002, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

Jay Uselton

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson

State Tennessee

Subscribed and sworn to before me this 26th day of April, 2004

Helen M. Dorsey
(NOTARY)

My Commission Expires

March 25, 2006

ORGANIZATIONAL CHART
As of December 31, 2002

In early 2003, Tenet Healthcare Corporation purchased the remaining shares of HUG Services, Inc. from Community Health Systems and now owns 100%.